

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Three Oaks		County Berrien
Audit Date March 31, 2006	Opinion Date May 19, 2006	Date Accountant Report Submitted to State: May 19, 2006		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686			
City Bay City	State MI	Zip 48707	
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

May 19, 2006

To the Township Board
Township of Three Oaks
Berrien County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Three Oaks, Berrien County, Michigan as of and for the year ended March 31, 2006 which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Three Oaks's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Three Oaks, Berrien County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Three Oaks covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$2,844,809.13 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$802,018.13 from governmental activities. Governmental activities had a \$94,055.47 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Library Fund, Roads and Bridges Fund, Building Fund and the Current Tax Collection Fund.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Library Fund, Roads and Bridges Fund and the Building Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for the Township's governmental services with total expenditures of \$412,281.61.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$37,802.40 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk or Township Treasurer at 269-756-9801.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

Governmental
Activities

ASSETS:

CURRENT ASSETS:

Cash in bank	2 230 699 68
Petty cash	125 00
Taxes receivable	11 300 30
Accounts receivable	132 367 34
Prepaid expenses	2 237 00
Total Current Assets	<u>2 376 729 32</u>

NON-CURRENT ASSETS:

Capital Assets	1 259 322 89
Less: Accumulated Depreciation	<u>(787 256 26)</u>
Total Non-current Assets	<u>472 066 63</u>

TOTAL ASSETS

2 848 795 95

LIABILITIES AND NET ASSETS:

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	<u>3 986 82</u>
Total Current Liabilities	<u>3 986 82</u>

NON-CURRENT LIABILITIES

Total Non-current Liabilities

-

-

Total Liabilities

3 986 82

NET ASSETS:

Invested in Capital Assets, Net of Related Debt	472 066 63
Unrestricted	<u>2 372 742 50</u>

Total Net Assets

2 844 809 13

TOTAL LIABILITIES AND NET ASSETS

2 848 795 95

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u> <u>Charges for Services</u>	<u>Governmental Activities</u> <u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	14 792 25	-	(14 792 25)
General government	137 742 12	17 139 99	(120 602 13)
Public safety	210 902 07	47 754 25	(163 147 82)
Public works	149 816 49	374 197 23	224 380 74
Culture and recreation	169 412 25	54 538 41	(114 873 84)
Other	25 297 48	-	(25 297 48)
Total Governmental Activities	<u>707 962 66</u>	<u>493 629 88</u>	<u>(214 332 78)</u>
General Revenues:			
Property taxes			140 747 20
State revenue sharing			82 643 91
Interest			67 182 26
Miscellaneous			<u>17 814 88</u>
Total General Revenues			<u>308 388 25</u>
Change in net assets			94 055 47
Net assets, beginning of year			<u>2 750 753 66</u>
Net Assets, End of Year			<u>2 844 809 13</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

<u>Assets</u>	<u>General</u>	<u>Roads and Bridges</u>	<u>Library</u>	<u>Other Funds</u>
Cash in bank	2 140 999 84	31 186 73	41 481 06	2 980 61
Petty cash	125 00	-	-	-
Taxes receivable	4 752 89	1 768 91	4 778 50	-
Accounts receivable	132 367 34	-	-	-
Due from other funds	14 657 78	1 041 89	-	-
Prepaid expenses	2 237 00	-	-	-
Total Assets	<u>2 295 139 85</u>	<u>33 997 53</u>	<u>46 259 56</u>	<u>2 980 61</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	3 986 82	-	-	-
Due to other funds	-	-	-	-
Total liabilities	<u>3 986 82</u>	<u>-</u>	<u>1 498 26</u>	<u>149 97</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	2 291 153 03	33 997 53	44 761 30	2 830 64
Total fund equity	<u>2 291 153 03</u>	<u>33 997 53</u>	<u>44 761 30</u>	<u>2 830 64</u>
Total Liabilities and Fund Equity	<u>2 295 139 85</u>	<u>33 997 53</u>	<u>46 259 56</u>	<u>2 980 61</u>

The accompanying notes are an integral part of these financial statements.

Total

2 216 648 24

125 00

11 300 30

132 367 34

15 699 67

2 237 00

2 378 377 55

3 986 82

1 648 23

5 635 05

2 372 742 50

2 372 742 50

2 378 377 55

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS

2 372 742 50

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost

1 259 322 89

Accumulated depreciation

(787 256 26)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES

2 844 809 13

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>	<u>Roads and Bridges</u>	<u>Library</u>	<u>Other Funds</u>
Revenues:				
Property taxes	51 254 34	24 125 63	65 367 23	-
Licenses and permits	-	-	-	12 754 25
State revenue sharing	77 582 57	-	5 061 34	-
State grant	-	-	500 00	-
Penal fines	-	-	54 538 41	-
Charges for services:				
Landfill	374 197 23	-	-	-
Fire	35 000 00	-	-	-
Property tax administration	17 139 99	-	-	-
Interest	65 112 25	457 57	1 593 44	19 00
Miscellaneous	12 676 14	-	4 638 74	-
Total revenues	<u>632 962 52</u>	<u>24 583 20</u>	<u>131 699 16</u>	<u>12 773 25</u>
Expenditures:				
Legislative:				
Township Board	14 792 25	-	-	-
General government:				
Supervisor	27 462 00	-	-	-
Assessor	135 60	-	-	-
Attorney	15 536 67	-	-	-
Clerk	15 332 01	-	-	-
Board of Review	1 277 43	-	-	-
Treasurer	21 383 37	-	-	-
Building and grounds	8 034 01	-	-	-
Cemetery	34 533 19	-	-	-
Unallocated	10 951 80	-	-	-
Public safety:				
Fire protection	70 065 98	-	-	-
Police protection	49 350 00	-	-	-
Planning and zoning	22 095 80	-	-	-
Protective inspection	-	-	-	-
Ambulance	55 000 00	-	-	12 606 75
Public works:				
Highways and streets	-	133 000 00	-	-
Sewer	6 275 00	-	-	-
Industrial park	10 541 49	-	-	-
Culture and recreation:				
Library	-	-	147 500 53	-
Parks	1 710 00	-	-	-
Other:				
Insurance	16 369 00	-	-	-
Payroll taxes	8 928 48	-	-	-
Capital outlay	22 507 53	-	15 294 87	-
Total expenditures	<u>412 281 61</u>	<u>133 000 00</u>	<u>162 795 40</u>	<u>12 606 75</u>

The accompanying notes are an integral part of these financial statements.

Total

140 747 20
12 754 25
82 643 91
500 00
54 538 41

374 197 23
35 000 00
17 139 99
67 182 26
17 314 88

802 018 13

14 792 25

27 462 00
135 60
15 536 67
15 332 01
1 277 43
21 383 37
8 034 01
34 533 19
10 951 80

70 065 98
49 350 00
22 095 80
12 606 75
55 000 00

133 000 00
6 275 00
10 541 49

147 500 53
1 710 00

16 369 00
8 928 48
37 802 40

720 683 76

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>	<u>Bridges and Roads</u>	<u>Library</u>	<u>Other Funds</u>
Excess (deficiency) of revenues over expenditures	<u>220 680 91</u>	<u>(108 416 80)</u>	<u>(31 096 24)</u>	<u>166 50</u>
Other financing sources (uses):				
Operating transfers in	35 903 88	-	-	-
Operating transfers out	-	-	(35 903 88)	-
Total other financing sources (uses)	<u>35 908 88</u>	<u>-</u>	<u>(35 903 88)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	256 584 79	(108 416 80)	(67 000 12)	166 50
Fund balances, April 1	<u>2 034 568 24</u>	<u>142 414 33</u>	<u>111 761 42</u>	<u>2 664 14</u>
Fund Balances, March 31	<u><u>2 291 153 03</u></u>	<u><u>33 997 53</u></u>	<u><u>44 761 30</u></u>	<u><u>2 830 64</u></u>

The accompanying notes are an integral part of these financial statements.

Total

81 334 37

35 903 88

(35 903 88)

-

81 334 37

2 291 408 13

2 372 742 50

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 81 334 37

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(25 081 30)
Capital Outlay	<u>37 802 40</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>94 055 47</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Three Oaks, Berrien County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Three Oaks. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Funds

The Current Tax Collection and the Agency Funds are used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 1.9945 mills, and the taxable value was \$71,563,132.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$25.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	25 years
Furniture and equipment	3-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated eight banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>2 230 699 68</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	799 158 15
Uninsured and Uncollateralized	<u>1 529 622 55</u>
Total Deposits	<u>2 328 780 70</u>

The Township of Three Oaks did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	232 650 00	-	-	232 650 00
Buildings	316 542 50	-	-	316 542 50
Equipment	<u>673 527 99</u>	<u>37 802 40</u>	<u>(1 200 00)</u>	<u>710 130 39</u>
Total	1 222 720 49	37 802 40	(1 200 00)	1 259 322 89
Accumulated Depreciation	<u>(763 374 96)</u>	<u>(25 081 30)</u>	<u>1 200 00</u>	<u>(787 256 26)</u>
Net Capital Assets	<u>459 345 53</u>	<u>12 721 10</u>	<u>-</u>	<u>472 066 63</u>

Note 5 – Pension Plan

The Township does not have a pension plan.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

As of March 31, 2006, the Township had building permit revenues of \$12,773.25 and building permit expenses of \$12,606.75.

TOWNSHIP OF THREE OAKS
Barrie County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	149 97	Building	149 97
General	1 498 26	Library	1 498 26
General	12 843 05	Current Tax Collection	12 843 05
General	166 50	Agency	166 50
Roads and Bridges	1 041 89	Current Tax Collection	1 041 89
Total	<u>15 699 67</u>	Total	<u>15 699 67</u>

Note 10 – Operating Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	<u>35 903 88</u>	Library	<u>35 903 88</u>
Total	<u>35 903 88</u>	Total	<u>35 903 88</u>

Note 11 – Budget Variances

During the fiscal year ended March 31, 2006, Township expenditures exceeded the budgeted amounts in the activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
Township Board	11 700 00	14 792 25	3 092 25
Assessor	-	135 60	135 60
Board of Review	1 100 00	1 277 43	177 43
Treasurer	16 400 00	21 383 37	4 983 37
Unallocated	7 500 00	10 951 80	3 451 80
Planning and zoning	19 900 00	22 095 80	2 195 80
Industrial park	10 000 00	10 541 49	541 49
Insurance	6 800 00	16 369 00	9 569 00
Library Fund Activity:			
Library	144 000 00	147 500 53	3 500 53
Capital outlay	-	15 294 87	15 294 87
Roads and Bridges Fund Activity:			
Highways and streets	105 000 00	133 000 00	28 000 00

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	49 000 00	49 000 00	51 254 34	2 254 34
State revenue sharing	76 010 00	76 010 00	77 582 57	1 572 57
Charges for services:				
Landfill	635 000 00	635 000 00	374 197 23	(260 802 77)
Fire	35 000 00	35 000 00	35 000 00	-
Property tax administration	15 000 00	15 000 00	17 139 99	2 139 99
Interest	28 000 00	28 000 00	65 112 25	37 112 25
Miscellaneous	48 450 00	48 650 00	12 676 14	(35 973 86)
Total revenues	<u>886 460 00</u>	<u>886 660 00</u>	<u>632 962 52</u>	<u>(253 697 48)</u>
Expenditures:				
Legislative:				
Township Board	11 700 00	11 700 00	14 792 25	3 092 25
General government:				
Supervisor	30 000 00	30 000 00	27 462 00	(2 538 00)
Elections	5 100 00	5 100 00	-	(5 100 00)
Accounting	3 600 00	3 600 00	-	(3 600 00)
Assessor	-	-	135 60	135 60
Attorney	20 000 00	20 000 00	15 536 67	(4 463 33)
Clerk	15 550 00	15 550 00	15 332 01	(217 99)
Board of Review	1 100 00	1 100 00	1 277 43	177 43
Treasurer	16 400 00	16 400 00	21 383 37	4 983 37
Building and grounds	8 150 00	8 150 00	8 034 01	(115 99)
Cemetery	45 000 00	45 000 00	34 533 19	(10 466 81)
Unallocated	7 500 00	7 500 00	10 951 80	3 451 80
Public safety:				
Fire protection	110 560 00	110 560 00	70 065 98	(40 494 02)
Police protection	49 350 00	49 350 00	49 350 00	-
Planning and zoning	19 900 00	19 900 00	22 095 80	2 195 80
Ambulance	60 000 00	60 000 00	55 000 00	(5 000 00)
Public works:				
Sewer	15 000 00	15 000 00	6 275 00	(8 725 00)
Industrial park	10 000 00	10 000 00	10 541 49	541 49
Culture and recreation:				
Parks	10 000 00	10 000 00	1 710 00	(8 290 00)
Other:				
Insurance	6 800 00	6 800 00	16 369 00	9 569 00
Payroll taxes	9 500 00	9 500 00	8 928 48	(571 52)
Capital outlay	24 000 00	24 000 00	22 507 53	(1 492 47)
Total expenditures	<u>479 210 00</u>	<u>479 210 00</u>	<u>412 281 61</u>	<u>(66 928 39)</u>
Excess of revenues over expenditures	<u>407 250 00</u>	<u>407 450 00</u>	<u>220 680 91</u>	<u>(186 769 09)</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Other financing sources (uses):				
Operating transfers in	-	-	35 903 88	35 903 88
Total other financing sources (uses)	-	-	35 903 88	35 903 88
Excess of revenues and other sources over expenditures and other uses	407 250 00	407 450 00	256 584 79	(150 865 21)
Fund balance, April 1	<u>1 441 796 91</u>	<u>1 441 796 91</u>	<u>2 034 568 24</u>	<u>592 771 33</u>
Fund Balance, March 31	<u><u>1 849 046 91</u></u>	<u><u>1 849 246 91</u></u>	<u><u>2 291 153 03</u></u>	<u><u>441 906 12</u></u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	70 000 00	70 000 00	65 367 23	(4 632 77)
State revenue sharing	7 000 00	7 000 00	5 061 34	(1 938 66)
State grant	-	-	500 00	500 00
Penal fines	57 000 00	57 000 00	54 538 41	(2 461 59)
Interest	4 000 00	4 000 00	1 593 44	(2 406 56)
Miscellaneous	6 000 00	6 000 00	4 638 74	(1 361 26)
Total revenues	144 000 00	144 000 00	131 699 16	(12 300 84)
Expenditures:				
Culture and recreation:				
Library	100 000 00	144 000 00	147 500 53	3 500 53
Capital outlay	-	-	15 294 87	15 294 87
Total expenditures	100 000 00	144 000 00	162 795 40	18 795 40
Excess (deficiency) of revenues over expenditures	44 000 00	-	(31 096 24)	(31 096 24)
Other financing sources (uses):				
Operating transfers out	-	-	(35 903 88)	(35 903 88)
Total other financing sources (uses)	-	-	(35 903 88)	(35 903 88)
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	(67 000 12)	(67 000 12)
Fund balance, April 1	-	-	111 761 42	111 761 42
Fund Balance, March 31	44 000 00	-	44 761 30	44 761 30

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – ROADS AND BRIDGES FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	24 500 00	24 500 00	24 125 63	(374 37)
Interest	-	-	457 57	457 57
Total revenues	<u>24 500 00</u>	<u>24 500 00</u>	<u>24 583 20</u>	<u>83 20</u>
Expenditures:				
Public works:				
Highways and streets	<u>105 000 00</u>	<u>105 000 00</u>	<u>133 000 00</u>	<u>28 000 00</u>
Total expenditures	<u>105 000 00</u>	<u>105 000 00</u>	<u>133 000 00</u>	<u>28 000 00</u>
Excess (deficiency) of revenues over expenditures	<u>(80 500 00)</u>	<u>(80 500 00)</u>	<u>(108 416 80)</u>	<u>(27 916 80)</u>
Fund balance, April 1	<u>80 500 00</u>	<u>80 500 00</u>	<u>142 414 33</u>	<u>61 914 33</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>33 997 53</u>	<u>33 997 53</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Township Board:	
Wages	3 800 00
Supplies	5 452 83
Miscellaneous	5 539 42
	<u>14 792 25</u>
Supervisor:	
Salary	27 462 00
	<u>27 462 00</u>
Assessor:	
Supplies	135 60
	<u>135 60</u>
Attorney	
	<u>15 536 67</u>
Clerk:	
Salary	14 280 00
Supplies	513 26
Travel	538 75
	<u>15 332 01</u>
Board of Review:	
Miscellaneous	1 277 43
	<u>1 277 43</u>
Treasurer:	
Salary	12 780 00
Supplies	7 279 44
Travel	89 93
Miscellaneous	1 234 00
	<u>21 383 37</u>
Building and grounds:	
Wages	600 00
Repairs and maintenance	2 219 92
Utilities	4 923 22
Miscellaneous	290 87
	<u>8 034 01</u>
Cemetery:	
Wages	30 518 64
Supplies	1 530 50
Utilities	1 401 05
Miscellaneous	1 083 00
	<u>34 533 19</u>
Unallocated	
	<u>10 951 80</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Fire protection:	
Wages	37 929 49
Insurance	13 199 00
Utilities	6 643 96
Supplies	3 000 56
Repairs and maintenance	5 345 77
Miscellaneous	3 947 20
	<u>70 065 98</u>
Police protection:	
Contracted services	<u>49 350 00</u>
Planning and zoning:	
Meetings	2 780 00
Miscellaneous	<u>19 315 80</u>
	<u>22 095 80</u>
Ambulance:	
Contracted services	<u>55 000 00</u>
Sewer	<u>6 275 00</u>
Industrial park	<u>10 541 49</u>
Parks and recreation:	
Miscellaneous	<u>1 710 00</u>
Insurance	<u>16 369 00</u>
Payroll taxes	<u>8 928 48</u>
Capital outlay	<u>22 507 53</u>
Total Expenditures	<u>412 281 61</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2006

<u>Assets</u>	<u>Roads and Bridges</u>	<u>Building</u>	<u>Library</u>	<u>Total</u>
Cash in bank	31 186 73	2 980 61	41 481 06	75 648 40
Taxes receivable	1 768 91	-	4 778 50	6 547 41
Due from other funds	1 041 89	-	-	1 041 89
Total Assets	<u>33 997 53</u>	<u>2 980 61</u>	<u>46 259 56</u>	<u>83 237 70</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	-	149 97	1 498 26	1 648 23
Total liabilities	<u>-</u>	<u>149 97</u>	<u>1 498 26</u>	<u>1 648 23</u>
Fund balances:				
Unreserved:				
Undesignated	33 997 53	2 830 64	44 761 30	81 589 47
Total fund balances	<u>33 997 53</u>	<u>2 830 64</u>	<u>44 761 30</u>	<u>81 589 47</u>
Total Liabilities and Fund Balances	<u>33 997 53</u>	<u>2 980 61</u>	<u>46 259 56</u>	<u>83 237 70</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2006

	<u>Roads and Bridges</u>	<u>Building</u>	<u>Library</u>	<u>Total</u>
Revenues:				
Property taxes	24 125 63	-	65 367 23	89 492 86
Licenses and permits	-	12 754 25	-	12 754 25
State revenue sharing	-	-	5 061 34	5 061 34
State grant	-	-	500 00	500 00
Penal fines	-	-	54 538 41	54 538 41
Interest	457 57	19 00	1 593 44	2 070 01
Miscellaneous	-	-	4 638 74	4 638 74
Total revenues	<u>24 583 20</u>	<u>12 773 25</u>	<u>131 699 16</u>	<u>169 055 61</u>
Expenditures:				
Public safety:				
Protective inspection	-	12 606 75	-	12 606 75
Public works:				
Highways and streets	133 000 00	-	-	133 000 00
Culture and recreation:				
Library	-	-	147 500 53	147 500 53
Capital outlay	-	-	15 294 87	15 294 87
Total expenditures	<u>133 000 00</u>	<u>12 606 75</u>	<u>162 795 40</u>	<u>308 402 15</u>
Excess (deficiency) of revenues over expenditures	<u>(108 416 80)</u>	<u>166 50</u>	<u>(31 096 24)</u>	<u>139 346 54</u>
Other financing sources (uses):				
Operating transfers out	-	-	(35 903 88)	(35 903 88)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(35 903 88)</u>	<u>(35 903 88)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(108 416 80)</u>	<u>166 50</u>	<u>(67 000 12)</u>	<u>(175 250 42)</u>
Fund balances, April 1	<u>142 414 33</u>	<u>2 664 14</u>	<u>111 761 42</u>	<u>256 839 89</u>
Fund Balances, March 31	<u>33 997 53</u>	<u>2 830 64</u>	<u>44 761 30</u>	<u>81 589 47</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES – ALL AGENCY FUNDS
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>44 36</u>	<u>1 663 757 09</u>	<u>1 569 689 66</u>	<u>94 111 79</u>
<u>Liabilities</u>				
Due to other funds	44 36	148 193 36	134 352 78	13 884 94
Due to others	<u>-</u>	<u>1 515 563 73</u>	<u>1 435 336 88</u>	<u>80 226 85</u>
Total Liabilities	<u>44 36</u>	<u>1 663 757 09</u>	<u>1 569 689 66</u>	<u>94 111 79</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>-</u>	<u>2 140 00</u>	<u>1 141 00</u>	<u>999 00</u>
<u>Liabilities</u>				
Due to other funds	-	347 00	180 50	166 50
Due to others	<u>-</u>	<u>1 793 00</u>	<u>960 50</u>	<u>832 50</u>
Total Liabilities	<u>-</u>	<u>2 140 00</u>	<u>1 141 00</u>	<u>999 00</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash in Bank	<u>44 36</u>	<u>1 665 897 09</u>	<u>1 570 830 66</u>	<u>95 110 79</u>
<u>Liabilities</u>				
Due to other funds	44 36	148 540 36	134 533 28	14 051 44
Due to others	<u>-</u>	<u>1 517 356 73</u>	<u>1 436 297 38</u>	<u>81 059 35</u>
Total Liabilities	<u>44 36</u>	<u>1 665 897 09</u>	<u>1 570 830 66</u>	<u>95 110 79</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2006

Cash in bank – beginning of year	44 36
Cash receipts:	
Property tax	1 647 350 71
Property tax administration fees	16 241 46
Interest	120 56
Total cash receipts	1 663 712 73
Total beginning balance and cash receipts	1 663 757 09
Cash disbursements:	
Township General Fund	52 603 32
Township Library Fund	60 423 48
Township Roads and Bridges Fund	21 325 98
Berrien County	768 662 32
State of Michigan	20 409 99
Berrien County ISD	159 919 36
Village of Three Oaks	4 891 05
River Valley Schools	360 892 15
Lake Michigan College	116 381 72
Refunds	4 180 29
Total cash disbursements	1 569 689 66
Cash in Bank – End of Year	94 111 79

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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BAY CITY, MICHIGAN 48707

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 19, 2006

To the Township Board
Township of Three Oaks
Berrien County, Michigan

We have audited the financial statements of the Township of Three Oaks for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Three Oaks in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Three Oaks
Berrien County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board
Township of Three Oaks
Berrien County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants